

VZCZCXRO8984
RR RUEHCN RUEHGH
DE RUEHHK #2217/01 2360927
ZNR UUUUU ZZH
R 240927Z AUG 07
FM AMCONSUL HONG KONG
TO RUEHC/SECSTATE WASHDC 2712
RUEHBJ/AMEMBASSY BEIJING 1325
RUEHGZ/AMCONSUL GUANGZHOU 0821
RUEHCN/AMCONSUL CHENGDU 1170
RUEHGH/AMCONSUL SHANGHAI
RUEHSH/AMCONSUL SHENYANG 3621
RUEHIN/AIT TAIPEI 4645
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS SECTION 01 OF 03 HONG KONG 002217

SIPDIS

SENSITIVE
SIPDIS

STATE PASS TO USTR CHINA OFFICE/TIM WINELAND
STATE PASS CONSUMER PRODUCTS SAFETY COMMISSION LAURIE
HOPKINS/INTL PROGRAMS

E.O. 12958: N/A
TAGS: [ECON](#) [ETRD](#) [PREL](#) [CH](#) [HK](#)
SUBJECT: HONG KONG TOY MANUFACTURERS RESPOND TO U.S.
TOY RECALLS WITH GREATER VIGILANCE

REF: A) GUANGZHOU 887, B) GUANGZHOU 911 C) BEIJING
5502

1. (SBU) Summary: Leaders of the Hong Kong Toys Council and The Toy Manufacturers' Association of Hong Kong told Econoffs that the U.S. recalls of China-produced toys in August served as a wake-up call for Hong Kong toy companies to immediately review their entire supply and production systems. Cognizant that their production facilities are located almost entirely in mainland China, Hong Kong toy companies are sensitive to customer concerns and media reports regarding China's product safety record. These toy association leaders affirmed their commitment to "full compliance" with international toy manufacturing standards. They are urging their members to "double-triple" check each of their manufacturing steps, and to add quality inspection manpower and more stringent control systems to cover all aspects of their operations, particularly subcontracting. The toy executives also emphasized that Hong Kong toy companies producing in the mainland comply with mainland China's inspection and regulatory requirements. They told Econoffs that in response to the August recalls the mainland authorities hastily enacted a shipping stoppage on toys bound for export, but lifted the stoppage after production facility inspections were increased and additional laboratory testing facilities came on line. End Summary.

Recalls and the Hong Kong

2. (SBU) In early August the U.S. Consumer Product Safety Commission and Mattel initiated several voluntary recalls of toys produced in mainland China by Hong Kong-invested factories. Toys were recalled due to two problems: 1) lead paint hazards 2) small magnets that could be detached and swallowed causing internal injuries. In a meeting with Econoffs on August 22, Hong Kong toy executives were quick to point out a distinction between the two types of recalls. The recall due to lead paint raises concerns about each aspect of the mainland China supply/production chain including supply sources, subcontractors, production methods, testing and certification. The magnet recall resulted from design flaws in a number of toys that had been in production for several years. According to toy executives, the volume and nature of these recalls, particularly in such rapid succession, caused "total chaos" at mainland China toy factories. The executives classified the impact of the back-to-back recalls as a "wake-up call" to immediately review the entire supply and production system. Cognizant that their production facilities are located almost entirely in mainland China, Hong Kong toy companies are sensitive to customer concerns and media reports regarding China's product safety record.

13. (SBU) The Hong Kong toy association leaders reaffirmed their companies' commitments to full compliance with international toy manufacturing standards. In response to the recalls, they claimed that Hong Kong toy companies are taking immediate and aggressive steps to ensure safety and compliance of their toy production facilities. The associations are urging their members to "double-triple" check each of their manufacturing steps, and to add quality inspection manpower and more stringent control systems to cover all aspects of their operations, particularly subcontracting. The toy companies are re-testing and certifying raw materials, equipment and products, in an effort to guarantee safety.

14. (SBU) The executives stated that they have been in the toy business a long time and understand the serious nature of manufacturing toys for children.

HONG KONG 00002217 002 OF 003

They pointed out that producing high quality toys that meet international quality and safety standards is a complex process that is often underestimated. In the mainland they also confront additional challenges such as dealing with questionable subcontractors, fraudulent supplies certifications (as in the case of lead paint) and corruption. They stated that Hong Kong-invested toy companies are acting to minimize the chances that shoddy production and supply practices will adversely impact the quality of their toys. These executives also emphasized their compliance with mainland China's inspection and regulatory requirements.

PRC Stops Shipments

15. (SBU) The toy executives said that the mainland Authorities' initial response to the August recalls was to enact a shipping stoppage on all mainland toys produced for export and increase laboratory tests and inspections for all toys. Furthermore, the mainland authorities ordered that toys be certified according to mainland China's standards, rather than using Hong Kong and UK international standards (which was standard practice prior to the August recalls). The toy executives said that the mainland authorities' actions effectively stopped toy shipments from mainland toy factories for more than a week causing total chaos during the toy manufacturers' peak Christmas shipping period. The Hong Kong toy companies urged, and the mainland authorities agreed to resume using Hong Kong and UK certification standards, and the shipping stoppage was lifted. The toy executives added that the PRC released an expanded list of government-approved testing laboratories, which should hasten compliance certification testing and allow for the resumption of normal shipping operations.

Inquiries From All Sides

16. (SBU) The Hong Kong toy companies, and their respective industry associations, are receiving queries from regulators, suppliers, and buyers (particularly from the United States and EU), which escalate after each recall event. In response, the toy executives are spending a great deal of time reviewing each part of the supply/production chain to assure quality compliance and are updating regulatory and testing requirements.

17. (SBU) Given the significant Hong Kong investment in the toy sector and the possibility that the toy recalls could have a negative impact on Hong Kong's overall economy there has also been notable Hong Kong media coverage. The toy executives explained that since the lead paint and magnet recalls occurred back-to-back, media interest was greater than would have normally been the case. The volume of media inquiries remains high, but the toy executives told us that their responses are only directed to trusted reporters as they do not want their "words twisted" during such a sensitive period. Their overall strategy has been to "take cover" and focus efforts on retesting all of their products.

The Hong Kong Toy Industry

18. (U) Hong Kong's toy industry, comprised of over 250 companies, operates joint venture production

facilities with Chinese partners and build-own-operate production facilities in the PRC. In total, Hong Kong companies have invested in/own over 6,000 toy factories in China, primarily in the Pearl River Delta. Many of these companies are original equipment

HONG KONG 00002217 003 OF 003

manufacturers (OEM) for U.S. and European companies, while others have their own product lines.

9. (U) The Toy Manufacturers Association of Hong Kong (TMHK) was founded in 1996, with the goal of promoting the development of Hong Kong toy industry, while protecting the industry's interests. The group has over 250 members. More information on The Toy Manufacturers' Association of Hong Kong can be found at: www.tmhk.net.

10. (U) The Hong Kong Toys Council (HKTC) is division of the Federation of Hong Kong Industries, and was established in 1986. The HKTC serves as an industry advocate and information clearinghouse, in addition to providing training International Council of Toy Industries (ICTI) on ethical manufacturing. Early Light Industrial, involved in the most recent Mattel recall of die-cast vehicles is a member. More information on the Hong Kong Toys Council can be found at www.toyshk.org.

11. Meeting participants:

- Mr. C.K. Yeung, Executive Vice President of TMHK and Vice Chairman of Blue Box Holdings
- Mr. Bernie Ting, TMHK member and Director of Qualidux
- Mr. Lawrence W.L. Chan, HKTC Chairman.

CUNNINGHAM